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RUEHVI/AMEMBASSY VIENNA PRIORITY 0919
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RUEHFR/AMEMBASSY PARIS PRIORITY 9245
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S E C R E T BERLIN 002159

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SIPDIS, P, T, E, NEA, ISN, EUR, EEB,

E.O. 12958: DECL: 12/02/2017

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SUBJECT: GERMANY/IRAN - U/S JEFFERY DISCUSSES ADDITIONAL EU
DESIGNATIONS WITH ECONOMICS MINISTRY STATE SECRETARY
PFAFFENBACH

REF: A. BERLIN 2140

[1](#)B. STATE 160808

Classified By: EMIN Robert A. Pollard for reasons 1.4
(b) and (d).

[1](#)1. (S) SUMMARY: Undersecretary Reuben Jeffery met with German Economics Ministry State Secretary Bernd Pfaffenbach in Berlin December 3 to request German support for additional EU autonomous measures against Iran in advance of a third UN Security Council resolution. Pfaffenbach reported that Chancellor Merkel had returned from her November 10 visit to Crawford convinced of the need for further steps to reduce German trade with Iran. Pfaffenbach reiterated Germany's preference for EU autonomous measures in lieu of, or as a supplement to, a third UNSCR. When pressed, Pfaffenbach said that Germany is prepared to support EU autonomous measures listing Iran's Bank Melli, on the condition that the measures not be announced until January. Pfaffenbach said ministries are considering possible next steps. Pfaffenbach reported that German trade with Iran had already decreased dramatically, but insisted that total elimination of export credit guarantees would reduce German trade with Iran to zero - a prospect that German business would not relish. (NOTE: The meeting occurred prior to the release of the new U.S. National Intelligence Estimate on Iran. END NOTE.) END SUMMARY.

[1](#)2. (S) In response to U/S Jeffery's request that Germany reconsider its position on supporting additional EU autonomous measures in advance of a third UN resolution, Pfaffenbach said the German Government understands and shares U.S. concerns. Although Germany is a major trading partner for Iran, German trade with Iran had "declined dramatically" since the beginning of 2007 (NOTE: approximately 18 percent). The German Government agrees that preventing an Iranian nuclear threat is more important than any economic or business concerns. Moreover, German industry accepts the need for prohibitions on exporting "harmful things" -- i.e., sensitive technology -- to Iran. Notwithstanding the concerns expressed by the German business community about further cuts in trade, Pfaffenbach said, the German Government is prepared to do so.

[1](#)3. (S) Pfaffenbach said Chancellor Merkel returned from her November 10 visit to Crawford convinced of the need to cut business ties further. He said Merkel has asked the Economics Ministry to "reflect on possible additional steps." Nonetheless, the German Government shares industry concerns about recent dramatic increases in exports to Iran from China

and India, as well as exports through the UAE. He reiterated that Germany has cut its Hermes export credit guarantees, but asserted that total elimination of export credit guarantees would reduce German trade with Iran to zero. The risk for German business, he explained, would simply be too high. (COMMENT: German Government officials repeatedly insist that a total ban on export guarantees could also lead the Government of Iran to direct Iranian firms not to pay their outstanding import bills, which would cost the German Government up to EUR 5.5 billion Euro and seriously disrupt German trade with Iran. END COMMENT.)

¶4. (S) Pfaffenbach reiterated Germany's preference for a strong UNSCR, and said Germany is prepared to support EU autonomous measures after a third resolution or in the event work toward a third resolution fails. That said, senior officials in the Chancellery, MFA, Economics Ministry, and Finance Ministry continue to discuss the issue of EU autonomous measures and are prepared to consider including Bank Melli in EU autonomous measures that would be announced in January.

¶5. (S) Pfaffenbach said German banks have been vocal in their opposition to including additional Iranian banks in future UN/EU listings. Putting another major Iranian bank on the list, German banks argue, would eliminate most, if not all, channels for financing business with Iran. He said Germany has mixed feelings about energy-specific measures -- while such measures would certainly be harmful to Iran, they would almost certainly result in increased oil prices, as well.

¶6. (S) Jeffery said the USG supports financial measures because of their multiplier effect and because the international financial community is responsive to such measures. Jeffery said the USG continues to discourage

investment in Iran's energy sector, primarily because this is where the regime derives its economic support. With respect to German concerns about India, China, and Russia, Jeffery said, the fact that European companies continue to do business with Iran gives the Iranian government credibility. He noted Tehran has also been able to exploit perceived gaps between the U.S. and the EU. Finally, Jeffery said EU action now would strengthen our collective hand with China, Russia, and India and could help prevent further postponement of UNSC action.

¶7. (S) Pfaffenbach insisted that the German and U.S./UK/French positions are not that far apart. He reiterated the Chancellor's instructions to the Economics Ministry and others to consider further steps. He said that German senior officials had emerged from a high-level interagency "brainstorming session" the week before convinced of the need for further action in the UNSC, but also united in their commitment to support additional EU steps, as well. He said the Chancellor and the Economics Ministry will continue their "moral suasion" efforts with German industry. Pfaffenbach reported that he personally had encouraged German business to withdraw their investments in Iran. German Economics Minister Glos and Chancellor Merkel both agree that "this goes beyond business."

¶8. (U) U/S Jeffery's office has cleared this message.
TIMKEN JR